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Mexico

Dairy and Products

Annual Report

2004

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Report Highlights:
Fluid milk production continues to increase at a modest rate and is forecast at 10.2 MMT in CY 2005. Mexico imports large volumes of milk powder to augment its domestic production. However, Leche Industrializada CONASUPO (LICONSA) the parastatal company charged with distributing milk to the poor continues to increase its usage of domestically produced fluid milk, at the expense of additional imports of powdered milk. Consequently, imports of non-fat dry milk and whole milk powder are forecast unchanged in CY 2005 at 170,000 MT and 45,000 MT respectively. Imports of U.S. milk powder are subject to a tariff-rate quota that increases three percent annually. The tariff-rate quota will be eliminated on January 1, 2008, in accordance with the terms of the North American Free Trade Agreement. The GOM continues to ban imports of live cattle following the December 2004 detection of Bovine Spongiform Encephalopathy (BSE) in a single cow in Washington State. Imports of other dairy products are not affected by the ban.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

Dairy Situation and Outlook: Mexico's fluid milk production continues to grow modestly and is expected to increase to almost 10.2 MMT in CY 2005. Production estimates for 2003 and 2004 are somewhat lower than previously estimated as farmers switched to cheaper and lower quality feeds due to the high cost of imported feed materials. Leche Industrializada CONASUPO (LICONSA) the parastatal company charged with distributing milk to the poor continues to increase its usage of domestically produced fluid milk, thus dampening additional imports of NFDM. Imports of non-fat dry milk powder (NFDM) are forecast at 170,000 MT in CY 2005, unchanged from 2004. While cheese production is forecast to grow modestly in 2005, LICONSA's emphasis on sourcing more fluid milk domestically is expected to lead to lower than expected domestic cheese production in 2004, as well as larger imports of fluid milk in areas along the border with the United States. Imports of cheese continue to grow as middle and higher income consumers develop tastes for foreign cheeses and foods. Cheese imports are expected to reach 85,000 MT in 2005.

Due to the GOM's current ban on imports of live cattle following the detection of a single case of BSE in Washington State late last year, Mexico has not imported dairy cattle from the United States since December 24, 2003. Imports of other dairy products such as powdered milk, fluid milk, semen, and embryos are not affected by the ban.

Note: Currently, the Mexican peso is valued at US$11.37.

SECTION II. STATISTICAL TABLES

PS&D Dairy, Milk, Fluid
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Milk, Fluid					
	2003		2004		2005	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2003		01/2004		01/2005	
Cows In Milk	6800	6800	6850	6850		6850
Cows Milk Production	9870	9784	10140	9900		10020
Other Milk Production	140	140	140	140		140
TOTAL Production	10010	9924	10280	10040		10160
Intra EC Imports	0	0	0	0		0
Other Imports	20	58	20	55		50
TOTAL Imports	20	58	20	55		50
TOTAL SUPPLY	10030	9982	10300	10095		10210
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Fluid Use Dom. Consum.	4380	4352	4550	4345		4400
Factory Use Consum.	5650	5630	5750	5750		5810
Feed Use Dom. Consum.	0	0	0	0		0
TOTAL Dom. Consumption	10030	9982	10300	10095		10210
TOTAL DISTRIBUTION	10030	9982	10300	10095		10210

PS&D Dairy, Cheese
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Cheese					
	2003		2004		2005	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2003		01/2004		01/2005	
Beginning Stocks	0	0	0	0		
Production	145	126	150	130		132
Intra EC Imports	0	0	0	0		0
Other Imports	73	78	75	80		85
TOTAL Imports	73	78	75	80		85
TOTAL SUPPLY	218	204	225	210		217
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Human Dom. Consumption	218	204	225	210		217
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	218	204	225	210		217
TOTAL Use	218	204	225	210		217
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	218	204	225	210		217

PS&D Dairy, Butter
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Butter					
	2003		2004		2005	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2003		01/2004		01/2005	
Beginning Stocks	0	0	0	0		0
Production	78	74	80	80		80
Intra EC Imports	0	0	0	0		0
Other Imports	40	40	40	40		40
TOTAL Imports	40	40	40	40		40
TOTAL SUPPLY	118	114	120	120		120
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Domestic Consumption	118	114	120	120		120
TOTAL Use	118	114	120	120		120
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	118	114	120	120		120

Note: Above data includes butter and butterfat.

PS&D Dairy, Milk, Nonfat Dry
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Milk, Nonfat Dry					
	2003		2004		2005	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2003		01/2004		01/2005	
Beginning Stocks	37	37	27	25		25
Production	150	150	160	160		160
Intra EC Imports	0	0	0	0		0
Other Imports	165	173	165	170		170
TOTAL Imports	165	173	165	170		170
TOTAL SUPPLY	352	360	352	355		355
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Human Dom. Consumption	325	335	325	330		330
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	325	335	325	330		330
TOTAL Use	325	335	325	330		330
Ending Stocks	27	25	27	25		25
TOTAL DISTRIBUTION	352	360	352	355		355

NOTE: Mexico does not keep official statistics on production and consumption of powdered milk. Post estimates for milk powder production (nonfat and whole milk) are based on interviews with the trade and LICONSA. Above production figures include both WMP and NFDM as production figures for WMP and NFDM are not separated or registered separately.

PS&D Dairy, Dry Whole Milk Powder
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Dry Whole Milk Powder					
	2003		2004		2005	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2003		01/2004		01/2005	
Beginning Stocks	0	0	0	0		0
Production	0	0	0	0		0
Intra EC Imports	0	0	0	0		0
Other Imports	45	43	45	45		45
TOTAL Imports	45	43	45	45		45
TOTAL SUPPLY	45	43	45	45		45
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Human Dom. Consum.	45	43	45	45		45
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	45	43	45	45		45
TOTAL Use	45	43	45	45		45
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	45	43	45	45		45

PRODUCTION OF FLUID MILK BY STATE
(000 LITERS)

STATES	2003	2004*	% Change
AGUASCALIENTES	394,987	400,000	1.2
BAJA CALIFORNIA	200,861	214,355	6.7
BAJA CALIFORNIA SUR	39,651	41,084	3.6
CAMPECHE	25,884	24,060	(7.5)
COAHUILA	1,058,886	1,082,802	2.2
COLIMA	37,847	34,388	(10.0)
CHIAPAS	320,923	320,624	(0.09)
CHIHUAHUA	712,828	780,000	9.4
MEXICO CITY	12,955	13,340	2.9
DURANGO	953,316	940,835	(1.3)
GUANAJUATO	647,465	648,675	0.1
GUERRERO	78,215	84,427	7.9
HIDALGO	415,024	429,187	3.4
JALISCO	1,712,546	1,722,500	0.5
MEXICO	489,628	489,144	0
MICHOACAN	313,040	307,500	(1.8)
MORELOS	17,500	17,910	2.3
NAYARIT	64,175	66,201	2.9
NUEVO LEON	40,790	40,685	1.0
OAXACA	142,901	143,494	0
PUEBLA	363,296	365,500	0.6
QUERETARO	215,823	216,014	0.08
QUINTANA ROO	4,974	3,743	(32.8)
SAN LUIS POTOSI	142,848	152,455	6.7
SINALOA	82,365	81,483	0.5
SONORA	148,090	133,915	(10.5)
TABASCO	96,041	99,300	3.3
TAMAULIPAS	27,887	31,632	13.4
TLAXCALA	150,000	147,054	(2.6)
VERACRUZ	720,426	719,217	(0.1)
YUCATAN	9,253	7,640	(21.1)
ZACATECAS	135,930	141,012	3.7
TOTAL	9,784,355	9,900,177	1.1

SOURCE: Agriculture Secretariat (SAGARPA)

*SAGARPA's forecast figures for January to December 2004

MEXICO'S MONTHLY FLUID MILK PRODUCTION
(000 LITERS)

MONTH	2003	2004*	% Change
JANUARY	746,121	755,099	1.2
FEBRUARY	740,716	736,599	(0.5)
MARCH	760,352	759,571	(0.8)
APRIL	775,415	767,779	(0.1)
MAY	805,947	785,107	(2.6)
JUNE	840,211	853,335	1.5
JULY	892,882	898,457	0.6
AUGUST	916,742	931,246	0.2
SEPTEMBER	902,354	927,696	9.7
OCTOBER	822,902	877,596	6.6
NOVEMBER	796,461	811,226	1.8
DECEMBER	784,253	796,466	1.5
TOTAL	9,784,355	9,900,177	1.1

SOURCE: Agriculture Secretariat (SAGARPA)

*SAGARPA's forecast figures for January to December 2004

AVERAGE MILK PRICES PAID TO PRODUCERS IN MEXICO PER STATE
(PESOS PER LT.)

STATES	2000	2001	2002	2003
AGUASCALIENTES	2.94	2.89	2.91	2.93
BAJA CALIFORNIA	3.85	3.79	3.81	3.78
BAJA CALIFORNIA SUR	4.12	5.09	3.81	3.95
CAMPECHE	3.65	3.93	3.68	3.27
COAHUILA	3.06	3.07	3.27	3.40
COLIMA	3.68	5.32	3.56	4.08
CHIAPAS	2.96	2.67	2.61	2.81
CHIHUAHUA	3.08	3.08	3.21	3.25
MEXICO CITY	4.06	4.53	3.56	5.00
DURANGO	3.08	4.21	3.75	3.68
GUANAJUATO	2.93	2.69	2.75	2.88
GUERRERO	4.03	4.65	4.40	4.86
HIDALGO	2.82	3.14	3.24	3.25
JALISCO	3.05	2.98	2.95	2.67
MEXICO	3.64	3.26	3.15	3.20
MICHOACAN	3.35	3.14	3.14	3.36
MORELOS	4.16	4.72	4.62	4.55
NAYARIT	4.04	4.33	3.98	3.35
NUEVO LEON	2.89	3.51	3.04	3.44
OAXACA	4.38	4.66	4.37	4.66
PUEBLA	3.37	2.86	3.07	3.22
QUERETARO	3.29	3.48	3.63	3.47
QUINTANA ROO	2.94	3.35	3.40	3.69
SAN LUIS POTOSI	3.56	2.96	3.11	3.09
SINALOA	2.85	3.07	3.23	3.26
SONORA	3.62	3.71	3.72	3.79
TABASCO	3.43	3.58	2.94	2.94
TAMAULIPAS	3.95	4.31	4.21	3.94
TLAXCALA	3.89	3.30	2.99	3.23
VERACRUZ	2.93	2.42	2.33	3.24
YUCATAN	4.04	4.45	3.69	4.07
ZACATECAS	3.87	3.77	3.19	3.48

Source: Agriculture Secretariat (SAGARPA)

AVERAGE MILK PRICES PAID TO PRODUCERS IN MEXICO PER MONTH

(PESOS PER LT.)

MONTH	2003	2004	VAR. %
January	3.14	3.37	7.3
February	3.14	3.38	7.6
March	3.18	3.36	5.6
April	3.18	3.50	10.0
May	3.18	3.50	10.0
June	3.20	3.55	10.9
July	3.20	3.55	10.9
August	3.23	3.60	11.4
September	3.25	N/A	N/A
October	3.23	N/A	N/A
November	3.32	N/A	N/A
December	3.37	N/A	N/A

SOURCE: Agriculture Secretariat (SAGARPA)

MEXICO'S DAIRY PRODUCT IMPORTS

Tariff Number Commodity & Country of Origin	**2003**		**2004***	
	Value	**Volume**	**Value**	**Volume**
0401.10.01 Milk & cream not exceeding 1% fat in hermetically sealed containers (Lts.)				
U.S.	1,506,469	2,824,160	840,592	1,779,128
Others	48,989	75,246	1,469	3,000
Total	1,554,458	2,899,406	842,061	1,782,128
0401.10.99 Other milk and cream not Exceeding 1% (Lts.)				
U.S.	0	0	0	0
Others	30,141	14,895	0	0
Total	30,141	14,895	0	0
0401.20.01 Milk & cream from 1 to 6% Fat in hermetically sealed Containers (Lts.)				
U.S.	7,634,062	13,945,853	4,599,576	7,504,480
Others	13,774,618	32,066,400	1,213,801	2,797,200
Total	21,408,680	46,012,253	5,813,377	10,301,680
0401.20.99 Other milk & cream between 1 and 6% fat (Lts.)				
U.S.	3,274,969	8,820,202	1,249,532	4,226,626
Others	0	0	0	0
Total	3,274,969	8,820,202	1,249,532	4,226,626
0401.30.01 Milk & cream exceeding 6% fat in hermetically sealed containers (Lts.)				
U.S.	5,916,859	10,167,710	1,502,745	2,159,078
Others	648,747	468,373	642,478	475,688
Total	6,565,606	10,636,083	2,145,223	2,634,766

Tariff Number Commodity & Country of Origin	2003		2004*	
	Value	Volume	Value	Volume
0401.30.99 Other milk and cream exceeding 6%/lts.				
U.S.	13,326,742	9,022,730	2,590,271	1,023,703
Others	451,308	371,799	311,300	243,784
Total	13,778,050	9,394,529	2,901,571	1,267,487
0402.10.01 Milk powder not exceeding 1.5% fat (Kgs.)				
U.S.	114,949,985	66,460,466	94,659,586	49,854,152
Others	89,360,955	55,617,286	53,922,094	29,048,059
Total	204,310,940	122,077,752	148,581,680	78,902,211
0402.10.99 Other milk powder not exceeding 1.5% fat (Kgs.)				
U.S.	450,047	186,350	1,196,370	494,525
Others	16,575,082	7,003,328	11,204,244	4,284,155
Total	17,025,129	7,189,678	12,400,614	4,778,680
0402.21.01 Milk powder exceeding 1.5% fat (Kgs.)				
U.S.	231,696	134,725	0	0
Others	76,152,059	41,793,784	50,817,150	27,629,352
Total	76,384,129	41,928,509	50,817,150	27,629,352
0402.21.99 Other milk powder exceeding 1.5% fat (Kgs.)				
U.S.	189,998	53,183	173,140	32,267
Others	4,364,863	1,659,500	2,049,479	690,720
Total	4,554,861	1,712,683	2,222,619	725,987
0402.29.99 Other milk powder (Kgs.)				
U.S.	613,219	154,807	361,918	91,398
Others	0	0	0	0
Total	613,219	154,807	361,918	91,398

Tariff Number Commodity & Country of Origin	**2003**		**2004***	
	Value	**Volume**	**Value**	**Volume**
0402.91.01 Evaporated milk (Kgs.)				
U.S.	1,667,529	1,383,973	959,244	770,438
Others	4,011	3,012	10,256	1,550
Total	1,671,540	1,386,985	969,500	771,988
0402.91.99 Other evaporated milk (Kgs.)				
U.S.	8,252	3,945	10,568	3,120
Others	1,892	200	121,576	179,088
Total	10,149	4,145	132,144	182,208
0402.99.01 Other evaporated milk (kgs.)				
U.S.	1,684,200	1,405,676	2,794,894	3,737,977
Others	18,580,960	16,726,358	17,824,429	15,564,420
Total	20,265,160	18,132,034	20,619,323	19,302,397
0402.99.99 Other condensed milk (Kgs.)				
U.S.	507,791	232,987	1,162,186	801,544
Others	236,310	337,077	210,167	275,996
Total	744,101	570,064	1,372,353	1,077,540
0406.10.01 Fresh Cheese (Kgs.)				
U.S.	13,804,796	5,458,383	10,647,408	3,753,560
Others	89,549	11,317	26,809	2,236
Total	13,894,345	5,469,700	10,674,217	3,755,796
0406.20.01 Powdered grated cheese (Kgs.)				
U.S.	28,492,260	8,518,995	19,793,805	5,372,808
Others	1,299,524	431,942	22,367	4,192
Total	29,791,784	8,950,937	19,816,172	5,377,000

Tariff Number Commodity & Country of Origin	**2003**		**2004***	
	Value	**Volume**	**Value**	**Volume**
0406.30.01 Processed cheese (Kgs.)				
U.S.	46,446	30,612	21,194	7,816
Others	9,045	3,335	7,171	2,064
Total	55,491	33,947	28,365	9,880
0406.30.99 Other processed cheese (Kgs.)				
U.S.	773,086	165,166	702,337	146,632
Others	1,872,128	545,518	1,399,629	366,726
Total	2,645,214	710,684	2,101,966	513,358
0406.40.01 Blue cheese (Kgs.)				
U.S.	232,679	36,806	107,027	15,321
Others	1,201,561	265,916	637,954	118,129
Total	1,434,240	302,722	744,981	133,450
0406.90.01 Sardo cheese (Kgs.)				
U.S.	0	0	0	0
Others	0	0	0	0
Total	0	0	0	0
0406.90.02 Reggiano cheese (Kgs.)				
U.S.	0	10	0	0
Others	2,200,293	619,737	803,007	212,969
Total	2,200,293	619,737	803,007	212,969
0406.90.03 Colonia cheese (Kgs.)				
U.S.	56,646	12,447	49,775	9,178
Others	1,392,502	643,727	479,021	189,000
Total	1,449,148	656,174	528,796	198,178

Tariff Number Commodity & Country of Origin	**2003**		**2004***	
	Value	**Volume**	**Value**	**Volume**
0406.90.04 Various hard & semi-hard Cheese (Kgs.)				
U.S.	557,717	113,105	464,182	81,481
Others	94,364,508	46,592,473	63,860,661	25,420,514
Total	94,922,225	46,705,578	64,324,843	25,501,995
0406.90.06 Egmont, maximum moisture 40%, fat 45% minimum, salt 3.9% (Kgs.)				
U.S.	0	0	0	0
Others	2,432,629	1,198,640	1,940,421	875,168
Total	2,432,629	1,198,640	1,940,421	875,168
0406.90.99 Other cheeses (Kgs.)				
U.S.	31,749,930	10,069,120	16,827,239	4,474,329
Others	9,099,158	2,908,639	10,522,698	3,183,929
Total	40,849,088	12,977,759	27,349,937	7,658,258
0405.10.01 Butter in packages less than 1 kg. (Kgs.)				
U.S.	343,282	88,432	378,289	67,959
Others	1,779,103	775,513	1,850,216	700,877
Total	2,122,385	863,945	2,228,505	768,836
0405.10.99 Other butter (Kgs.)				
U.S.	527,996	183,894	444,027	124,320
Others	1,151,152	786,920	3,073,855	1,757,043
Total	1,679,148	970,814	3,517,882	1,881,363
0405.20.01 Dairy Spreads (Kgs.)				
U.S.	5,778	1,652	4,352	981
Others	0	0	0	0
Total	5,778	1,652	4,352	981

Tariff Number Commodity & Country of Origin	2003		2004*	
	Value	Volume	Value	Volume
0405.90.01 Butter Fat, Dehydrated (Kgs.)				
U.S.	9,953,716	6,120,202	1,426,017	793,064
Others	67,303,570	42,243,805	76,649,096	38,604,924
Total	77,257,286	48,364,007	78,075,113	39,397,988
0405.90.99 Butter fat, dehydrated (Kgs.)				
U.S.	6,824	1,928	53,974	12,747
Others	73,154	44,195	104,395	56,700
Total	79,978	46,123	158,369	69,447
0403.10.01 Yoghurt (Kgs.)				
U.S.	1,626,898	1,113,349	860,996	617,596
Others	682,563	225,004	40,106	5,963
Total	2,309,461	1,338,353	901,102	623,559
0403.90.99 Other milk whey (Kgs.)				
U.S.	4,769,898	2,970,478	1,942,959	958,870
Others	13,782,065	9,187,159	9,153,622	4,891,835
Total	18,551,728	12,157,637	11,096,581	5,850,705
0404.10.01 Whey, sweetened or not, nor concentrated (Kgs.)				
U.S.	20,137,532	39,854,414	13,707,243	22,645,473
Others	5,289,990	2,793,810	5,455,953	2,326,020
Total	25,427,522	42,648,224	19,163,196	24,971,493
0404.10.99 Whey, others				
U.S.	9,139,014	8,978,537	6,155,658	5,758,969
Others	221,242	66,777	446,089	360,405
Total	9,360,256	9,045,314	6,601,747	6,119,374
0404.90.99 Other wheys				
U.S.	2,260,745	539,083	1,244,643	212,182
Others	967,077	376,801	890,904	258,695
Total	3,227,822	915,884	2,135,547	470,877

Tariff Number Commodity & Country of Origin	**2003**		**2004***	
	Value	**Volume**	**Value**	**Volume**
2105.00.01 Ice cream and similar products (Kgs.)				
U.S.	25,776,901	16,399,419	18,755,998	10,686,421
Others	3,044,579	1,332,113	1,770,823	875,076
Total	28,821,480	17,731,532	20,526,821	11,561,497

SOURCE: Bank of Mexico and Commerce Secretariat (SECOFI)
*Data is for Jan-July 2004
NOTE: Value is in U.S. dollars and volume is in liters or kilograms as indicated following each product description.

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

FLUID MILK

Production

Fluid milk production in Mexico continues to grow steadily and is forecast at 10.2 MMT in CY 2005. Continued improvements in herd management among Mexico's larger dairies, consistent demand from processors, expanded demand from LICONSA to meet the needs of government social programs, and expected steady prices should all lead to higher production in 2005. Despite increasing modernization among larger dairies, a number of factors continue to plague milk production among medium and smaller producers such as poor sanitation and genetics, inadequate cold storage and refrigeration facilities, a lack of affordable financing, and poor infrastructure in more remote areas. Lower production estimates for 2003 and 2004 reflect changes in feeding patterns as farmers shifted to lower cost and poorer quality feeds to offset the higher cost of imported feeds. The fluid milk production estimate for CY 2003 reflects official data.

Consumption

Mexico's fluid milk consumption for CY 2005 is forecast at 4.4 MMT, as LICONSA expands its use of domestic fluid milk to augment its use of reconstituted milk powder in its social programs and reduce its dependence on imported milk powder. It's estimated that LICONSA distributes almost 3.3 million liters of subsidized milk per day at the current price of 3.50 pesos per liter (US$0.30) to the economically challenged part of the population who depend on the government social program for low-priced milk. For CY 2004 and 2005, LICONSA expects to increase utilization of domestic fluid milk at the expense of imported milk powder. In CY 2003, LICONSA is estimated to have used 190 million liters of domestically produced raw fluid milk, 84 percent more than in CY 2002.

Despite the expanded distribution of fluid milk by LICONSA, overall fluid milk consumption for CY 2004 is revised downward due in large part to lower than expected production and higher milk prices. Consumer prices in Mexico are currently 7.26 pesos per liter for pasteurized milk (US$0.62) and 8.07 per liter of UHT milk (US$0.69). More widespread consumption of fluid milk continues to be hampered by problems with sanitation, transportation, and processing capacity, although supplies and quality are improving. Total consumption in CY 2003 reflects official data.

The Government of Mexico estimates that about 28 percent of milk is consumed raw in Mexico and 24 percent is consumed via the government's social program managed by LICONSA. The first case represents a potential health problem, and the second case a heavy monetary burden that discourages investments for improvements in genetics by domestic milk producers who receive lower prices for their raw milk. LICONSA serves as the buyer of last resort for many smaller and more remote producers who are not members of cooperatives or part of the supply area for milk processors. While LICONSA pays producers a price similar to a market price, discounts are applied for poor quality and producers are under weekly or monthly supply contracts. The consumption of pasteurized milk and dairy products represents an estimated 48 percent of total consumption.

Trade

CY 2003 fluid milk imports jumped to levels not seen since the mid-1990's and are expected to continue at relatively high levels in 2004 and 2005 as retailers along the border source larger volumes of fluid milk from the United States to compensate for domestic supplies that are being bid away by processors in the interior of Mexico. This increase in imports appears to stem from LICONSA's increased purchasing of fluid milk, which has caused processors to seek new sources of supply. Imports of fluid milk continue to be hampered in the Mexicali/Tijuana area where according to trade sources, the local milk producers have made it difficult to sell U.S. milk through the local supermarkets and specialty stores with the help of obscure local government regulations that require local stores to sell all locally produced milk first.

Mexico had begun to diversify its sources of dairy cattle in recent years, reducing its imports of U.S. cattle and importing more cattle from lower cost origins such as New Zealand, Australia, and Canada. Thus far in 2004, Mexico has imported 6,090 head of cattle, all from New Zealand. However, given the current ban on imports of live cattle from Canada and the United States, Mexico is also expected to increase its imports of semen in 2004 and the United States is expected to be a major supplier. Mexico imported 1,066,478 units of U.S. semen in CY 2003.

Policy

In the late 1990's, the government took steps to reduce its role in the purchasing and distribution of milk. Currently, there no support programs to directly aid dairy producers.

Marketing

See dairy products marketing section at the end of this report.

CHEESE

Production

Cheese production for CY 2005 is forecast to only slightly increase from the previous year's revised estimate due to sluggish growth in fluid milk production and the continued usage of fluid milk in the GOM's social programs. Low cheese production for CY 2004 and CY 2003 reflects the reduction in fluid milk production and the increased consumption of fluid milk by LICONSA in their social program. CY 2003 cheese output reflects official data.

Consumption

Cheese consumption for CY 2005 is forecast to increase over the previous year's revised estimate as a result of increasing demand from the fast-food industry, institutional users, and specialty cheese consumers. However, lower production of domestic cheeses in 2003 and 2004 stemming from increased purchases by LICONSA and subsequent reduced commercial supplies of fluid milk has reduced cheese consumption in some market segments, chiefly among low-income consumers.

Trade

Cheese imports are forecast to be higher in CY 2005 as consumers continue to develop preferences for non-Mexican cheeses such as mozzarella, cheddar, monterrey jack, provolone and brie. For CY 2004, imports are projected slightly higher due to demand for non-Mexican cheeses. CY 2003 imports reflect official data.

Policy

See dairy products policy section at the end of this report.

Marketing
See dairy products marketing section at the end of this report.

BUTTER

Production

All Mexican statistics on butter and butterfat production are combined. Butter and butterfat production for CY 2005 are forecast to remain unchanged from the previous year's estimate as LICONSA remains the principal user of butterfat used in reconstituting milk powder into whole milk for its social program. Additionally, consumers are becoming more health conscious and are purchasing more low-fat dairy products and substitutes such as margarine that do not contain cholesterol. The CY 2003 butter production estimate reflects official data.

Consumption

Combined butter and butterfat consumption for CY 2005 is forecast to remain unchanged from the previous year's estimate due to consumer trends towards lower fat and lower cholesterol foods. The estimate for CY 2003 reflects official data.

Stocks

Consistent with past years, no stocks are estimated due to the lack of refrigerated storage space among producers and end users. Users such as bakeries, food processors, and LICONSA do not keep large stocks of butter.

Trade

Imports for CY 2005, are forecast to remain unchanged as demand for imported butter is expected to remain largely unchanged in light of trends toward lower fat dairy products and other foods. The estimate for CY 2003 reflects official data. Note: PS+D trade data reflect consumption imports of butter, while the butter trade data presented in this report in tabular form represents total imports.

Policy

See dairy products policy section at the end of this report.

Marketing

See dairy products marketing section at the end of this report.

NON-FAT DRY MILK (NFDM)

Production

The Government of Mexico combines NFDM and whole milk powder in its production and consumption estimates. Consequently, the NFDM PS+D contains estimates that reflect both NFDM and WMP production and consumption. Mexican NFDM producers are not expected to significantly increase production in the short term due to limited processing facilities. Output for CY 2005 is forecast to remain unchanged from the previous year's estimate, however, it is slightly greater than the CY 2003 estimate given expectations that LICONSA will seek to maintain a minimal level of stocks to avoid making emergency purchases of milk powder on the international market. The 2003 estimate reflects official data.

Consumption

The consumption forecast for CY 2005 remains largely unchanged from the previous estimates given expectations that LICONSA will increase its purchases of fluid milk rather than import additional quantities of NFDM to meet its program needs. Demand from cheese and other food processors is expected to remain steady. The 2003 estimate reflects official data.

Stocks

Stocks for CY 2005 are forecast to remain unchanged from the previous year's revised estimate as LICONSA continues its policy of minimizing storage costs. LICONSA is the main holder of powered milk stocks. In previous years, LICONSA had tried to maintain larger stock levels to avoid imports during the early part of the calendar year when domestic milk prices are typically highest. Stocks held by the private sector are minimal.

Trade

Mexico continues to be far from reaching self-sufficiency in NFDM production because of limited domestic processing capacity and limited supplies of domestically produced milk. The import forecast for NFDM in CY 2005 remains unchanged from the previous year's estimate reflecting the expectation that LICONSA will continue to procure greater volumes of domestic milk. Demand from the processing sector is also expected to remain steady as many small processors prefer to buy NFDM from the larger importers who can negotiate a better price, due to volume purchases, however, depending on the price, processors can use either fluid milk or milk powder in their processes. Imports of powdered milk will be subject to tariff-rate quotas until January 1, 2008, see policy section. For CY 2003, the NFDM import estimate reflects official data.

Policy

See dairy products policy section at the end of this report.

Marketing

See dairy products marketing section at the end of this report.

WHOLE MILK POWDER (WMP)

Production

Because Mexico does not make a distinction between NFDM and WMP statistics, the PS+D for WMP only reflects imports. While production figures are not included in the PS+D, based on industry discussions, production of WMP is expected to be largely unchanged in 2005.

Consumption

WMP consumption for CY 2005 is forecast to remain unchanged from 2004. According to LICONSA, over 60 percent of the WMP and NFDM is consumed by the poor. LICONSA expects to continue opening new milk stores in proportion to population growth, as long as the government budget permits.

Stocks

Stocks of WMP are minimal and are not reflected in the PS&D table for WMP.

Trade

Mexico continues to be far from reaching self-sufficiency in WMP production because of limited domestic processing capacity. Imports are forecast unchanged in CY 2005 given LICONSA's emphasis on purchasing domestic fluid milk. The CY 2003 estimate reflects official data.

Policy

See dairy products policy section at the end of this report.

Marketing

See dairy products marketing section at the end of this report.

POLICY

With the exception of powdered milk, all U.S. exports of dairy products to Mexico are duty-free. Milk powder exports (NFDM and WMP) to Mexico are subject to a tariff-rate quota (TRQ), which will be phased out in 2008. At the beginning of NAFTA there was a duty-free quota of 41,200 MT for NFDM with an over-quota tariff rate of 127.8 percent or $1,067/MT, whichever was greater. For the 2004, the tariff-rate quota is 53,757 MT and the tariff was down to the greater of 46.9 percent or $391.8/MT; by January 1, 2008, the tariffs on U.S. milk powder exports to Mexico are scheduled to be eliminated. Private companies bid for import permits (cupos) that allow them to import a specific quantity under the TRQ at zero duty. LICONSA is not subject to the TRQ and may import any quantity of milk powder at zero duty to meet its program needs.

Milk and milk products along with embryos and semen are exempt from the BSE ban. However, Mexico continues to ban imports of live dairy cattle. See MX 4106 for additional details.

MARKETING

The cooperator group that represents the US dairy industry in foreign markets is the US Dairy Export Council (USDEC). The council's staff in Mexico City provides information on all aspects of US dairy product trade and use, including market intelligence on trade policy issues, organizing informational seminars for the Mexican trade, and developing promotion and sales opportunities for US dairy products in the Mexican market. USDEC also organizes buying missions for potential Mexican importers/distributors to visit US dairy processing plants so they can meet and see, firsthand, various US suppliers and the services they offer. Mexico is expected to continue as a significant importer of dairy products to augment domestic production. While imports are likely to consist primarily of bulk products such as NFDM, higher value products such as specialty cheeses and ice creams are also likely to find a home in Mexico's growing consumer class as tastes, preferences, and shopping habits increasingly mirror those of the United States and Europe.

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http://www.usdec.org

The following table lists all reports regarding developments in dairy policy and the dairy industry in Mexico since the beginning CY 2004.

Related FAS/Mexico Reports

Report Number	Title of Report	Date
MX4004	Dry Milk WTO Quota	1/12/04
MX4005	Dry Milk NAFTA Quota	1/12/04
MX4006	BSE Update	1/09/04
MX4015	BSE Update Second Edition	1/29/04
MX4031	Auctions for Dairy Preparations	3/05/04
MX4032	Milk Powder Auction	3/05/04
MX4036	BSE Update Third Edition	3/11/04
MX4040	BSE Update Fourth Edition	3/24/04
MX4052	BSE Update Fifth Edition	4/21/04
MX4053	Mexico to Overhaul Import Requirement Procedures for Animals and Animal Products	4/23/04
MX4056	BSE Update Sixth Edition	5/03/04
MX4062	Dairy and Products Semi Annual Report	5/14/04
MX4067	BSE Update Seventh Edition	5/26/04
MX4085	BSE Update Eighth Edition	7/08/04
MX4106	BSE Update (Ninth Edition)	8/24/04